

STUDENT FINANCIAL AID IN KENTUCKY:

AN UPDATE

**Strategic Committee on
Postsecondary Education
(SCOPE) Meeting
June 2, 2003**



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Executive Director

KHEAA/The Student Loan People



**The
Student Loan
PeopleSM**

Status Report on Student Financial Aid in Kentucky



- Who We Are and What We do
- Student Aid Funding: Where We Are
- Student Aid Policy: Where We Are Going
- Issues for Future Consideration
- Immediate Goals

KHEAA/KHESLC: Who We Are



- KHEAA administers state student financial aid programs and is the federally designated Federal Family Education Loan Program (FFELP) guarantor for Kentucky and Alabama.
- KHESLC, also known as The Student Loan People, is KHEAA's sister agency and the state's only public, nonprofit student loan provider.

Our Mission— Improving Access



KHEAA

- Federal Student Loan Guaranty Agency (Kentucky, Alabama)
- Loan Origination Services for Lenders
- Administers State Student Aid (Kentucky Grants, Scholarships)
- Waives Loan Guaranty Fee
- Administers Education Savings Plan

KHESLC

- Originates and Purchases Student Loans (Kentucky)
- Services Loans (National)
- Funds Grant Programs (Transfers to KHEAA)
- Offers Borrower Benefits
- Loan Origination Fee Discounts
- Interest Rate Reductions

Assisting Students,
Parents, Lenders and
Schools to Improve Higher
Education Opportunities

KHEAA/KHESLC Board Structure



KHEAA/KHESLC's Boards of Directors include:

- 10 voting members appointed by the Governor.
- Five voting, ex-officio members:
 - President of CPE
 - President of AIKCU
 - Secretary of the Finance and Administration Cabinet
 - Kentucky State Treasurer
 - Commissioner of KDE (effective June 24, 2003)

Student Financial Aid Programs



Need Based

- College Access Program (CAP) Grant
 - FY2004 Max Award--\$1,400
(increased from \$1,260)
- Kentucky Tuition Grant (KTG)
 - FY2004 Max. Award--\$2,400
(increased from \$1,800)

Merit Based

- Kentucky Educational Excellence Scholarship (KEES)—based on good grades and test scores
 - Maximum Award--\$2,500



General Eligibility Comparison



CAP Need-Based	KTG	KEES
		Merit-Based
Kentucky resident	Kentucky resident	Kentucky resident
Financial need (as determined by FAFSA)	Financial need (as determined by FAFSA)	2.5 GPA or higher; 15 or higher ACT score for bonus award
Attend an in- state, public or private college, technical college, or proprietary school	Attend an in- state, private college	Attend an in- state public or private college, technical college, or proprietary school

Other KHEAA Student Aid Programs

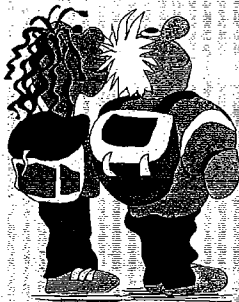


Conversion Scholarship/Loans

- Teacher Scholarship
- Osteopathic Medicine Scholarship

Work-Study

- KHEAA Work Study Program



Kentucky's 529 Plans



Kentucky Education Savings Plan Trust (KESPT)

- Savings can be used for tuition/fees, room/board, books/supplies.
- New Guaranteed Investment Option
- www.kysaves.com



Kentucky's Affordable Prepaid Tuition (KAPT)

- Plan guarantees tomorrow's tuition at today's prices.
- www.getKAPT.com

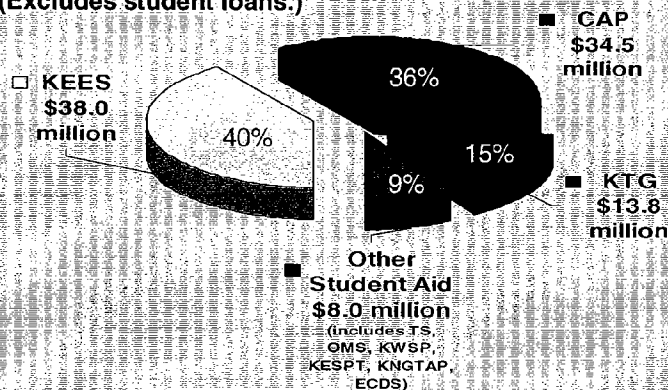


State Student Aid Direct Benefits to Students—FY02



\$94 Million!
(Excludes student loans.)

Lottery-Funded
Student Aid = 91%



Student Loan People \$3 Million Transfer for State Grant Programs FY2003



Student Loan People Transfer for KHEAA for Awards

Appropriation for Awards

**\$1 million
for CAP**

**Total
\$36.2
million**



**Total
\$15.9
million**

**\$1 million for
Work-Study**

**Total
\$1
million**

Student Aid Funding

Where We Are

Kentucky Student Aid Program Funding



Program	FY2002 Awards	FY2002 Amount Disbursed	FY2003 Projected Awards	FY2003 Projected Disbursements	FY2004 Projected Awards	FY2004 Projected Disbursements
KEES	43,660	\$38,002,900	56,120	\$62,293,800	61,100	\$69,500,000
CAP	34,530	34,523,100	34,620	36,180,700	36,520	44,644,900 ¹
KTG	8,850	13,798,700	10,120	15,941,800	9,930	24,246,200 ²
TS	650	2,144,500	670	2,152,600	710	2,289,400
OMS	120	1,530,900	130	1,582,100	130	1,500,200
ECDS	850	479,100	720	711,600	670	714,900
KWS	780	683,200	1,300	1,000,000	1,300	1,000,000
KNGTAP	1,700	2,145,400	890	2,302,200	910	2,348,100
Total	91,140	\$93,307,800	104,570	\$122,164,800	111,270	\$146,243,700

Source: Kentucky Higher Education Assistance Authority

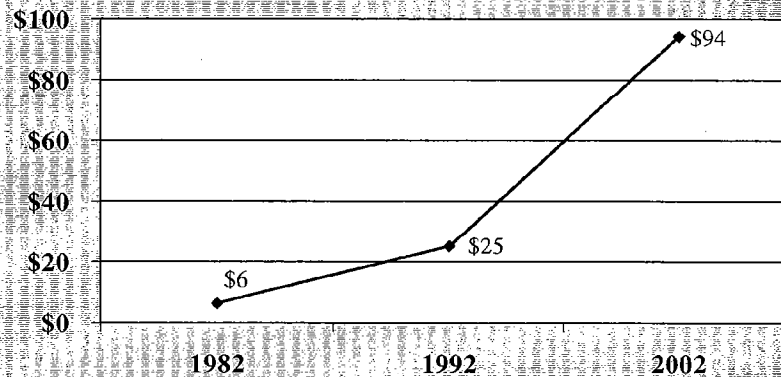
¹Includes \$1 million from The Student Loan People

²Includes \$1 million from The Student Loan People and an additional \$5 million in funding from General Fund.

State Student Aid Has Increased Dramatically



Millions



Impact of Increased Funding



Increased Award Amounts for FY2004

- College Access Program (CAP) Grant increased from \$1,260 to \$1,400
- Kentucky Tuition Grant (KTG) Award increased from \$1,800 to \$2,400

Student Aid Policy

Where We Are Going

2003 Legislative Activities



The State Budget Bill was signed into law. Among its provisions are the following:

- Increased funding for the KTG program \$5 million above the amount provided by the state lottery. In response, KHEAA will increase the number of awards by approximately 1,000 and raise the maximum award amount to \$2,400 (\$600 above this year).
- Full funding of the KEES program for FY2004.
- Transfer of Kentucky's Affordable Prepaid Tuition (KAPT) plan from the State Treasurer's Office to KHEAA. No new KAPT contracts may be signed until July 1, 2004, at the earliest. The KHEAA Board of Directors will oversee the program.

2003 Legislative Activities



The following bills become law on June 25:

- **SB 17** ratifies the Governor's Executive Orders providing identical membership for the KHEAA and KHESLC Boards of Directors.
- **SB 130** allows KHESLC to finance alternative loans.
- **HB 40** allows student financial aid funds, including KEES, to be used for students majoring in theology, divinity, or religious education at postsecondary institutions that do not have programs comprised solely of sectarian instruction.
- **HB 376** establishes a library science scholarship to be administered by the State Librarian.
- **HCR 141** directs the Interim Joint Committee on Education to study the KEES program to determine if it needs adjustments and make recommendations as needed to the General Assembly.

Five National Trends in Higher Education



- Increases in tuition have college less affordable for most Americans
- Federal and state funding of student financial aid has not kept pace with increases in tuition
- More families at all income levels are borrowing more than ever before to pay for college
- Increases in tuition have come at times of greatest economic hardship
- State financial support for public higher education has not increased at a rate to keep up with increases in tuition

Losing Ground: A National Status Report on the Affordability of American Higher Education

Student Aid Issues Forthcoming at the Federal Level



- Reauthorization of the Higher Education Act
- Future funding Levels for Pell Grants
- Future of GEAR UP and TRIO
- McKeon College Costs Bill
- Future structure of federal student loan programs

Merit-Based Scholarships The National Picture



- 23 states have merit-based scholarship programs
- Lottery proceeds and Tobacco Settlements are a major source of funding
- GPA of 3.0 or higher is typical minimum criteria
- Class rank and ACT/SAT scores are also used as criteria

Merit-Based Scholarships The National Picture

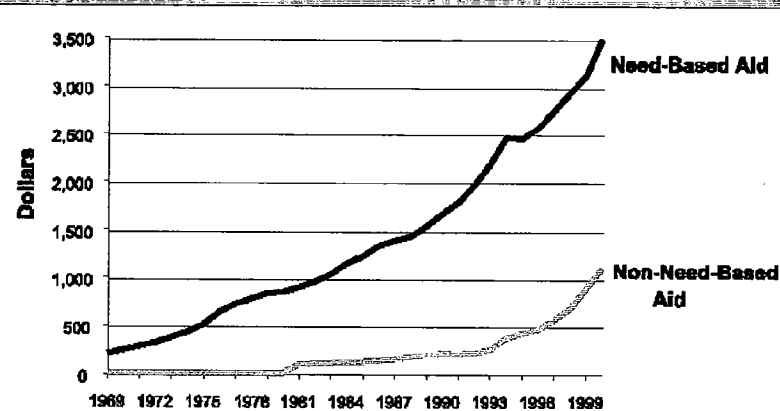


Findings from:

The Civil Rights Project, Harvard University
Who Should We Help? The Negative Social Consequences of Merit Scholarships, August 23, 2002

- Academic merit has replaced financial need as the primary determinant for state aid awards in the past 10 years
- Spending on need-based state aid increased by 7.7% annually
- Merit-based state aid increased 18.3%
- In 2001, \$863 million in 12 states for merit-based aid; only \$308 million for need-based aid

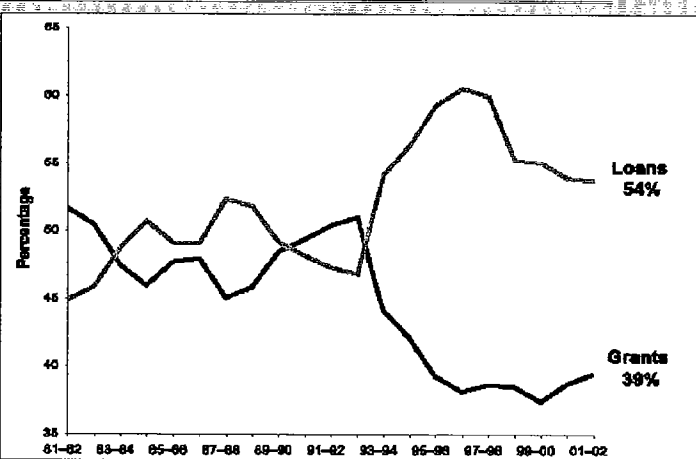
Average State Need-Based and Non-Need-Based Aid In Constant (2001) Dollars, 1969-2000



Source: Based on annual survey of National Association of State Student Grant and Aid Programs and assistance from Donald E. Heller, Penn State University.

Source: *Trends in Student Aid 2002*, The College Board.

Grants vs. Loans Percent Share of Total Aid, 1981-82 to 2001-02



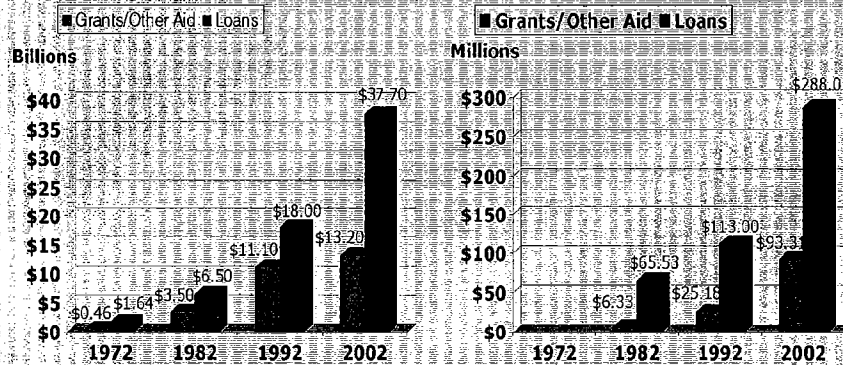
Source: *Trends in Student Aid 2002*, The College Board.

Grants and Other Aid vs. Loans



Nationally

Kentucky



Kentucky's Experience



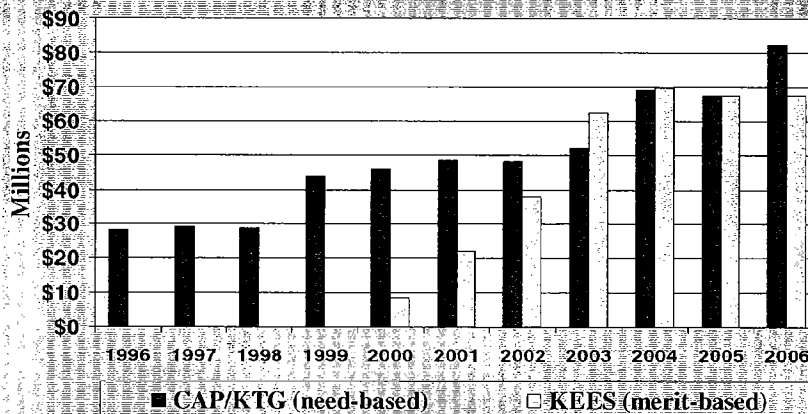
Background:

- Need-based grant programs were created in the early 1970s.
- The 1998 Kentucky General Assembly:
 - Created the merit-based Kentucky Educational Excellence Scholarship funded by lottery proceeds.
 - Provided substantial funding for major need-based programs from lottery proceeds.

Kentucky's Experience



Need-Based vs. Merit-Based Aid Budget Allocations



KEES: A Difference By Design



- Minimum 2.5 GPA is lower than most merit scholarships.
 - To recognize and encourage average students to pursue a college education or technical training.
 - No reduction in awards due to Pell or other aid.
 - No application for the grant!!! Students simply have to "show up!"
- Award amounts increase as GPAs increase.
 - To recognize and reward academic excellence.
 - Maximum base award per year is \$500 or \$2,000 for four years of high school
 - Maximum Bonus Award based on ACT score of another \$500
- KEES and need-based grants are "stacked" (no penalty)

Kentucky's Experience



Lottery Allocations

By statute, all Net Lottery Proceeds (excluding \$3 million for literacy efforts) will go toward need-based and merit-based student financial aid as of FY2006

	Merit-Based KEES	Need-Based CAP/KTG	Total of Net Lottery Proceeds
FY1999		\$14 million	\$14 million
FY2000	\$7 million	\$15 million	\$22 million
FY2001	15 percent	32 percent	47 percent
FY2002	25 percent	32 percent	57 percent
FY2003	32 percent	32 percent	64 percent
FY2004	40 percent	40 percent	80 percent
FY2005	45 percent	45 percent	90 percent
FY2006	45 percent	55 percent	100 percent

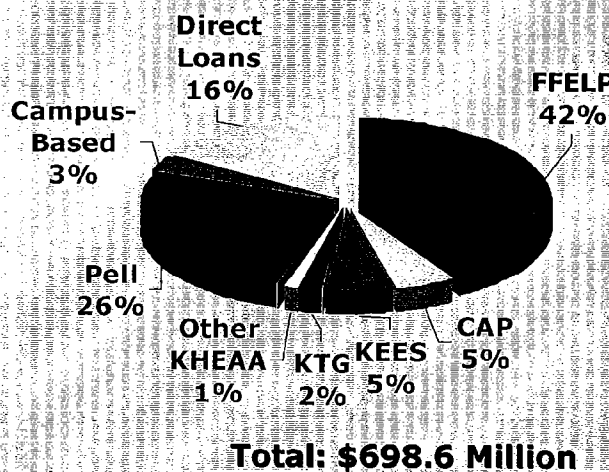
Immediate Goals

KHEAA/KHESLC Immediate Goals



- Full funding of merit-based and need-based student financial aid programs in relation to tuition increases
- Meaningful analysis of the impact of KEES in Kentucky
- Provide the lowest cost student loans in Kentucky
- Maximum use of technology
 - Go Higher, Kentucky!
- Active intervention strategies

Student Aid In Kentucky—FY2002



Loans: 58%

Other

Student Aid:

42%

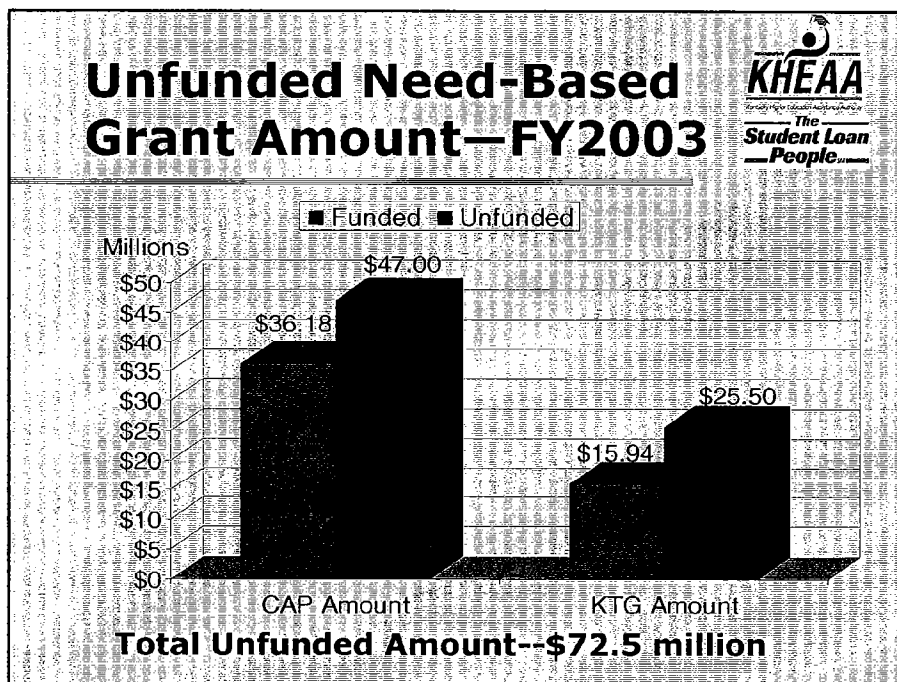
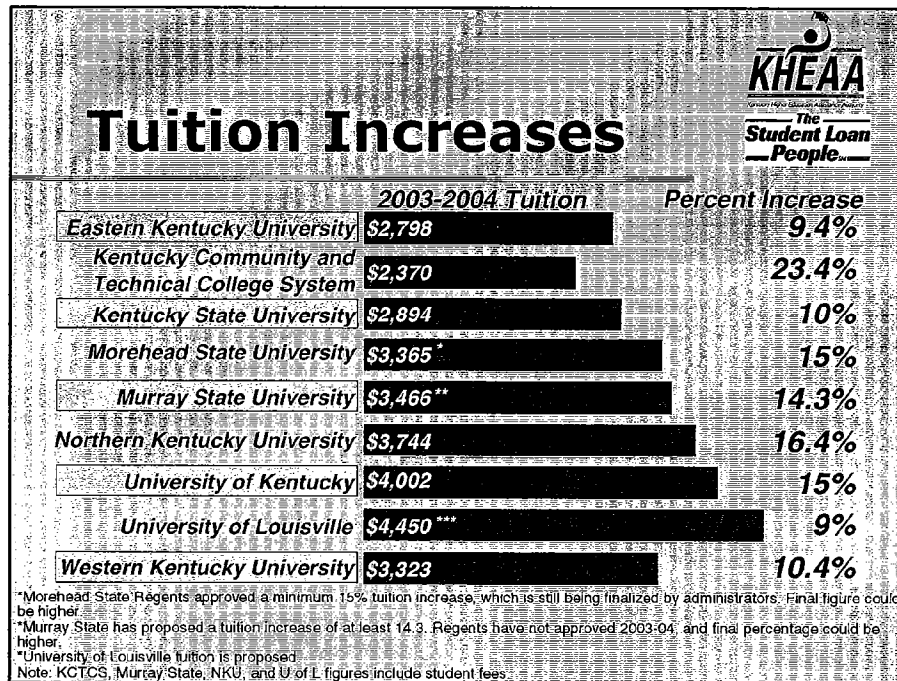
Average

Indebtedness

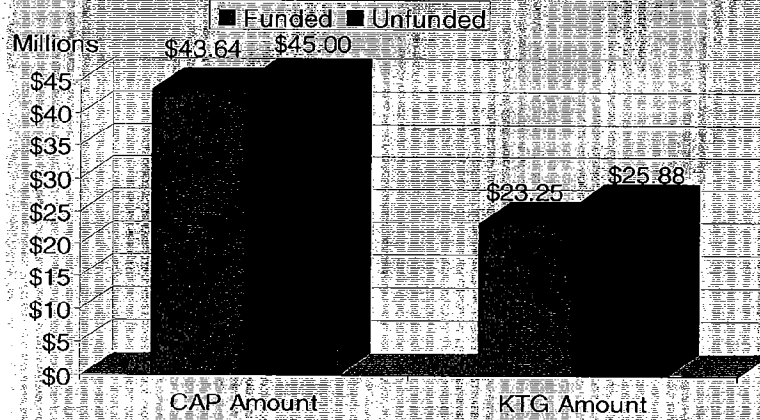
for Kentucky

graduates:

\$13,500



Unfunded Need-Based Grant Amount—FY2004



Total Unfunded Amount—\$70.88 million

Lowest Cost Student Loans in Kentucky



- 0% origination fee; 0% insurance fee through KHEAA
- 2% credit to the principal after completion of the academic period for which the loan was made
- .25% interest rate reduction for automatic payments
- 3.5% credit to the original loan principal after the first 30 consecutive on-time payments



- Interest forgiveness for all teachers, guidance counselors, and librarians
- 20% loan forgiveness for:
 - Math teachers
 - Science teachers
 - English as a Second Language teachers
 - Special education teachers



- Interest forgiveness for current registered nurses
- 20% loan forgiveness for registered nurses (with loans made after July 1) for each year of service

Go Higher, Kentucky! Web Portal

KHEAA
The Student Loan People

Advisory Committee

- KHEAA/KHESLC
- CPE
- KDAEL
- KCTCS
- KDE
- KYVL
- KYVU
- AIKCU

A Master Web Site for All Postsecondary Education in Kentucky!

Active Intervention Strategies

KHEAA
The Student Loan People

- Continued support for GEARUP
- Collaboration with other agencies via KHEAA outreach Advisory Committee
- KHEAA outreach activities
- Identify additional intervention strategies that will boost the college-going rate in Kentucky